

TABLE OF CONTENTS

INTRODUCTION	1
SCOPE	1-2
EXECUTIVE SUMMARY	2-3
PROGRAM OFFICE RESPONSE	3
FINDINGS AND RECOMMENDATIONS	
Child Support Accrual Methodology	3
Review of Key Factors and Assumptions	4

INTRODUCTION

The FIA Office of Internal Audit (OIA) performed a limited scope audit of the Department's Fiscal Year 2004 Year End Closing transactions and processes (September 1, 2003-October 31, 2004).

The objectives of our audit were:

1. Review a sample test of accounts payable and encumbrance transactions
2. Review the child support accrual methodology for estimated payables or receivables

This audit was limited in scope and nature and, therefore, was not conducted in accordance with all Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

SCOPE

The scope of our audit included obtaining and reviewing appropriate records and documents, as we considered necessary to satisfy our objectives. Audit work was performed primarily between August 1, 2004 and January 10, 2005.

For objective one, we obtained the lists of accounts payable and encumbrances established at the 2003-2004 fiscal year-end. The total amount of accounts payable established was \$122,698,781.80 and the amount of encumbrances was \$16,654,205.76. We sampled and reviewed 9 accounts payable that totaled \$94,534,503.89 or 77% of the amount established. We reviewed the supporting documentation from our sample to determine that an account payable or encumbrance was proper and that the amount was reasonable. We reviewed the unliquidated balances from the prior year and their disposition. We determined the amount of unrecorded obligations from the prior year.

We reviewed vendor payroll accounts payable to determine that old year charges from split payrolls were charged back to the old fiscal year.

For objective two, we reviewed prior year child support accrual work papers to obtain an understanding of the prior year accrual process. We met with Office of Child Support (OCS) and FIA Accounting management to obtain an understanding of the current year's accrual methodology used to prepare the child support accrual estimate, including their review of key factors and assumptions used to compute the estimate. We obtained an understanding of the methods used by OCS to ensure the accuracy of the accrual numbers including documenting the Michigan Child Support Enforcement System (MiCSES) to FIA Data Warehouse data transfer process and reconciliation. We reviewed the query logic used to pull data used in the estimate and tested sample cases from the MiCSES Data Warehouse to the source system (MiCSES) for completeness and accuracy.

EXECUTIVE SUMMARY

Based on our review, we determined that payable and encumbrance transactions processed as part of the FY04 year-end closing by the Bureau of Accounting and Financial Management (BAFM) appeared to be processed appropriately and were supported by adequate documentation. We had no findings or recommendations related to objective one.

We determined that the methodology used by OCS for calculating estimated payables and receivables for the FY04 child support accrual appears to be adequate. We also determined, with reasonable assurance, that the data used to calculate the child support accrual appears to be accurate and complete. We provided two recommendations related to objective two, regarding controls that could be implemented to help strengthen the child support accrual estimation in the future. Implementing these recommendations also

would help FIA to comply with a material weakness related to maintaining sound internal control over the child support accrual identified in a prior Office of the Auditor General audit of the child support accrual methodology (Report 43-101-99F).

PROGRAM OFFICE RESPONSE

The management of the Bureau of Accounting and the Office of Child Support have reviewed the findings and recommendations included in this report. They responded on March 4 and March 7, 2005 that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS:

Child Support Accrual Methodology

1. OCS should document the methodology followed to calculate the annual child support accrual estimate.

Other than final data and accrual calculation numbers, there is not a documented methodology used to calculate the accrual. Documenting the methodology provides a history of the accrual process and estimation and a point of reference to ensure consistent treatment in future periods. Documenting the methodology followed also helps to ensure the process could be performed in the absence of the individuals currently performing the accrual calculation/estimate. By not documenting the methodology, OCS does not have a history of how the estimate was performed or has changed over the years.

WE RECOMMEND that OCS document the methodology followed to calculate the annual child support accrual.

Review of Key Factors and Assumptions

2. OCS should formally document their review of key factors and assumptions that support the annual child support accrual estimate.

Although we believe that key factors and assumptions were reviewed prior to the FY04 accrual being calculated, OCS did not document which factors and assumptions were reviewed. Examples of key factors or assumptions that may be considered include changes in the child support program that affect arrearage balances, changes made to the information system that processes child support payments that may affect case level information, etc. Formal documentation would help to ensure the integrity of the process and formalize an understanding of the exact factors and assumptions considered in the review process.

WE RECOMMEND that OCS formally document any key factors and assumptions they review prior to calculating the annual child support accrual.